

Message Text

CONFIDENTIAL

PAGE 01 STATE 106374
ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY ARA/EC::KWIEDEMANN:JD
APPROVED BY ARA/ECP:SHROGERS
TREASURY: FMARESCA
EB/OMA: WMILAM
IMF: SCROSS
S/S -O:TGMARTIN

-----060656 261842Z /75

P 261807Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY LIMA PRIORITY

C O N F I D E N T I A L STATE 106374

EXDIS

E.O. 11652: GDS

TAGS: EFIN, PE

SUBJECT: PERU'S FINANCIAL CRISIS

REFERENCE: LIMA 3443

BEGIN SUMMARY. DURING THE INTER-AMERICAN DEVELOPMENT
BANK (IDB) MEETING IN VANCOUVER, IMF STAFF MET WITH GOP
REPRESENTATIVES TO DISCUSS THE STATUS OF PERU'S IMF
STAND-BY AGREEMENT. THESE DISCUSSIONS CONTINUED IN WASH-
INGTON ON APRIL 21 AND 22. WHILE NO MAJOR AGREEMENT
WAS REACHED ON THE SPECIFIC STAND-BY MEASURES, THE IMF
STAFF AND GOP REPRESENTATIVES AT LEAST AGREE ON WHAT
PERU'S NEXT PROCEDURAL STEPS SHOULD BE. AFTER THE NEW
AUSTERITY PACKAGE IS APPROVED BY THE PERUVIAN COUNCIL OF
MINISTERS, THE GOP WILL REVEAL THE PROPOSED MEASURES TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 106374

THE F ND WHICH WILL THEN QUANTIFY THEIR IMPACT. END
SUMMA Y.

1. ECONOMIC STABILIZATION PROGRAM: CENTRAL BANK PRESI-
DENT DE LA MELENA EXPLAINED THAT THE GOP HAD BEEN WAITING
FOR COMPLETION OF THE DUISENBERG REPORT TO RESUME NEGOTIA-
TIONS WITH THE FUND. WITH THE REPORT COMPLETE, THE GOP

HAS DEVELOPED A NEW ECONOMIC AUSTERITY PROGRAM WHICH HAS BEEN PROPOSED TO BUT NOT APPROVED BY THE COUNCIL OF

MINISTERS. THE CENTRAL BANK PRESIDENT EXPECTED THE PROGRAM TO BE APPROVED BY WEEK'S END, APRIL 22, OR ON APRIL 24 AT THE LATEST. (THE IMF STAFF DOES NOT KNOW THE DETAILS OF THE PROPOSED AUSTERITY PROGRAM.)

3. STATUS OF THE STAND-BY: THE GOP ORIGINALLY REQUESTED THAT IT BE ABLE TO MAKE THE SECOND DRAWING UNDER THE AGREEMENT WITHOUT MEETING ANY SPECIFIED TARGETS BUT FINALLY AGREED TO THE IMF'S VIEW THAT A TRACK RECORD OF COMPLIANCE WITH THE MEASURES WAS NEEDED PRIOR TO ANY DRAWING. AFTER RECEIVING THE DETAILS OF THE NEW PROGRAM, THE IMF STAFF WILL QUANTIFY THE IMPACT OF THESE MEASURES. ASSUMING MEASURES ARE ADEQUATE, AN AGREEMENT IN PRINCIPLE ON THE PROPOSED NEW PROGRAM COULD BE REACHED BY JUNE. THE STAND-BY TARGETS MAY BE RELAXED SOMEWHAT FROM THE ORIGINAL TARGETS ALTHOUGH THE EXACT DETAILS HAVE YET TO BE NEGOTIATED BETWEEN THE IMF AND GOP. IMF STAFF BELIEVE THAT THE GOP HAS BEEN RUNNING A WEEKLY FISCAL DEFICIT OF 5 BILLION SOLES, OR OVER 250 BILLION SOLES IN ANNUAL TERMS, AS CONTRASTED WITH THE 38.9 BILLION DEFICIT ALLOWED FOR 1978 IN THE STAND-BY AGREEMENT. GIVEN THE NEED FOR A TRACK RECORD OF COMPLIANCE UNDER THE NEW PROGRAM, IT IS UNLIKELY THAT THE GOP COULD MAKE THE SECOND DRAWING CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 106374

BEFORE SEPTEMBER.

4. COMMERCIAL BANKS: SINCE COMMERCIAL BANKS MADE RECEIPT OF THE SECOND DRAWING A PRECONDITION TO FINALIZING THE \$260 MILLION BALANCE OF PAYMENTS LOAN, THE GOP IS PROJECTING THAT IT WILL RUN OUT OF RESERVES BY LATE MAY. (IMF STAFF BELIEVES RESERVES WILL BE DEPLETED END JUNE.) THE GOP HAS, THEREFORE, ASKED THE COMMERCIAL BANKS TO PROVIDE AN \$80 MILLION 6-MONTH BRIDGE LOAN BASED ON AN IMF AGREEMENT TO "CERTIFY" THE GOP'S PROPOSED NEW AUSTERITY PROGRAM. THE GOP REPORTED THAT THE COMMERCIAL BANKS WERE MORE RECEPTIVE THAN THEY HAD EXPECTED, BUT EXPRESSED THE CONCERN THAT THE US COMPTROLLER OF THE CURRENCY WOULD RECLASSIFY SHORT-TERM LOANS TO GOP FROM THE SPECIAL MENTION TO THE SUBSTANDARD CATEGORY. AS REPORTED SEPTTEL, DURING THE VANCOUVER MEETING, DEPUTY SECRETARY CARSWELL REPORTED TO THE PERUVIANS THAT THE COMPTROLLER KNEW OF NO MOVE TO CHANGE THE CLASSIFICATION OF LOANS TO PERU AT THAT TIME. THE COMPTROLLER CONSTANTLY MONITORS THE SITUATION AND THERE MIGHT BE CAUSE FOR CONCERN IN THE FUTURE SHOULD THERE BE A FURTHER DETERIORATION IN THE SITUATION IN PERU. VANCE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL CRISIS, ECONOMIC STABILITY, DRAWING RIGHTS AGREEMENTS, NEGOTIATIONS, FINANCIAL PROGRAMS, COMMERCIAL BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE106374
Document Source: CORE
Document Unique ID: 00
Drafter: :KWIEDEMANN:JD
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780178-1011
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780414/aaaaaldp.tel
Line Count: 116
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a9af2fa7-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 78 LIMA 3443
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 25 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2839881
Secure: OPEN
Status: NATIVE
Subject: PERU'S FINANCIAL CRISIS
TAGS: EFIN, PE, IMF
To: LIMA
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/a9af2fa7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014